

COSTA RICA¹

MINIMUM WAGE

Minimum wage legislation was first passed in Costa Rica in 1943.² A national minimum wage board was created in 1949 to consolidate a decentralized system of regional wages boards.³ From 1949 to 1974, minimum wages were usually set every two years. In response to pressure to adjust real wages to the accelerating inflation rate, the National Wage Council began in 1974 to adjust minimum wages annually and to use explicitly the consumer price index as a guide. Minimum wages began to be revised twice a year in 1986.⁴ Until 1988, there were approximately 350 different occupational/industrial minimum wages specified in legislation, when the number was reduced to about 200. In 1990, there was a further simplification to about 80 categories. All full-time private- and, since 1984, public-sector employees are legally covered by minimum wages. Public sector negotiations, based on private sector minimum wages, normally follow the settlement of private sector negotiations.⁵

Currently, minimum wages for all sectors are set by the National Wage Council, composed of three members each from government, business and labor. Under exceptional circumstances, e.g., concerted pressure from organized labor, wages can be adjusted more frequently. The Wage Council is a legal entity established by law; its findings are binding on the private sector. The minimum wage for each occupation that employers are obliged to pay is published in the official gazette.⁶ The Ministry of Labor supervises compliance. The Ministry of Labor effectively enforces minimum wages in the San Jose area, but less

¹Unless noted otherwise, information presented here is from American Embassy—San Jose, unclassified telegram No. 517 (March 1, 1999).

² Gerald Starr, *Minimum Wage Fixing: An International Review of Practices and Problems* (Geneva: International Labour Office, 1981; second printing with corrections, 1993), p. 7.

³ Gerald Starr, *Minimum Wage Fixing: An International Review of Practices and Problems* (Geneva: International Labour Office, 1981; second printing with corrections, 1993), p. 31.

⁴ American Embassy—San Jose, *Foreign Labor Trends: Costa Rica, 1989*, FT-90-33 (Washington: U.S. Department of Labor, 1990), p. 4.

⁵ U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 576.

⁶For more information on minimum wages in Costa Rica, see International Labour Organization (ILO), “Minimum Wage Fixing in Costa Rica,” Labour Law and Labour Relations Branch (LEG/REL) *Briefing Note* No. 10 (Geneva: International Labour Organization, 1997), which is also available on the ILO’s web site: <<http://www.ilo.org/public/english/80relpro/legrel/papers/brfnotes/minwages/costarr2.htm>>.

effectively in rural areas.⁷

Current minimum wages are effective from January 1 to June 30, 1999. The minimum salary paid to a worker in the footwear and apparel industry is 73,258 colones (C), approximately 266 U.S. dollars (US\$) per month based upon a 40 hour workweek. The following table presents the monthly minimum wage rates for domestic employees and professionals for the years 1993-98.

Monthly Minimum Wage Rates for Domestic Workers and Professionals

| Year | Domestic Workers | | Professionals | | Consumer Price Index (1993=100) | Real Minimum Wage Index (C; 1993=100) | |
|------|------------------|--------|---------------|--------|------------------------------------|--|---------------|
| | (C) | (US\$) | (C) | (US\$) | | Domestic Workers | Professionals |
| 1993 | 16,829 | 118 | 81,501 | 573 | 100.0 | 100 | 100 |
| 1994 | 18,176 | 116 | 88,023 | 560 | 113.5 | 95 | 95 |
| 1995 | 21,928 | 122 | 106,282 | 591 | 139.9 | 93 | 93 |
| 1996 | 25,636 | 123 | 124,255 | 598 | 164.4 | 93 | 93 |
| 1997 | 30,179 | 130 | 146,274 | 629 | 186.1 | 96 | 96 |
| 1998 | 34,440 | 134 | 166,700 | 648 | 207.1 | 98 | 98 |

Source: U.S. Department of State, *Country Reports on Human Rights Practices for 1993-97*, Costa Rica Country Report (Washington: U.S. Government Printing Office, 1994-98), section 6e.

PREVAILING OR AVERAGE WAGE

The prevailing industrial wage is approximately C85,258 (approximately US\$310) per month. Overtime is paid at 1.5 times these rates. The average labor income in Costa Rica is approximately US\$200 per month.

The table below presents available data from the International Labor Organization (ILO) on average monthly earnings (direct wages per worker) in Costa Rica for all employees in the manufacturing sector and in the apparel and leather footwear industries. They include pay for time worked, paid leave, bonuses, and other benefits paid directly to the employee, but not the cost of social insurance programs.⁸ Average hours worked per week by all employees were 49.1 in all manufacturing, 48.4 in apparel, and 48.1 in footwear and leather goods for the years 1990 through 1997.⁹ Current average earnings, which are reported by the

⁷ U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 576.

⁸ International Labour Organization, *Yearbook of Labour Statistics, 1998* (Geneva: International Labour Office, 1998), p. 805.

⁹ International Labour Organization, *Yearbook of Labour Statistics, 1998* (Geneva: International Labour Office, 1998), p. 734.

ILO in the national currency, were converted to US\$ using the annual average exchange rate published in the International Monetary Fund's *International Financial Statistics* (March 1999). To track changes in real earnings (i.e., earnings adjusted for inflation), a real earnings index was computed by deflating current earnings in the national currency with the annual average national consumer price index as published in the International Monetary Fund's *International Financial Statistics* (March 1999), indexed to 1990 = 100.

Average Monthly Earnings in All Manufacturing, Apparel, and Footwear

| Year | All Manufacturing | | Apparel | | Footwear | | Real Earnings Index (C: 1990=100) | | |
|------|-------------------|--------|---------|--------|----------|--------|-----------------------------------|---------|----------|
| | (C) | (US\$) | (C) | (US\$) | (C) | (US\$) | Manuf. | Apparel | Footwear |
| 1990 | 20,037 | 219 | 15,532 | 170 | 17,039 | 186 | 100 | 100 | 100 |
| 1991 | 27,229 | 222 | 21,652 | 177 | 17,803 | 145 | 106 | 108 | 81 |
| 1992 | 32,949 | 245 | 26,656 | 198 | 23,161 | 172 | 105 | 109 | 87 |
| 1993 | 38,631 | 272 | 30,828 | 217 | 28,752 | 202 | 112 | 115 | 98 |
| 1994 | 44,720 | 285 | 35,023 | 223 | 36,370 | 232 | 114 | 115 | 109 |
| 1995 | 54,365 | 302 | 45,105 | 251 | 53,656 | 299 | 113 | 121 | 131 |
| 1996 | 63,894 | 308 | 53,629 | 258 | 43,282 | 208 | 113 | 122 | 90 |
| 1997 | 75,672 | 325 | 61,055 | 262 | 69,600 | 299 | 118 | 123 | 128 |

Source: ILO, *Yearbook of Labour Statistics*, 1998, p. 886.

NON-WAGE BENEFITS

Government mandated non-wage benefits for workers in the apparel and footwear industries, paid by the employer, are as follows (as percentage of the wages paid to the employee):

| | |
|---|---------------|
| Health and maternity benefits | 9.25 percent |
| Disability, old age, and death benefits | 4.75 percent |
| Family allowances (welfare) benefits | 5.00 percent |
| Vocational school tax (INA) | 2.00 percent |
| Workers' savings bank | 0.50 percent |
| Social assistance tax (IMAS) | 0.50 percent |
| Occupational hazard insurance (INS) | 3.75 percent |
| Christmas bonus (13th month of pay) | 8.33 percent |
| Paid vacations | 4.17 percent |
| Official holidays | 4.17 percent |
| Reserve for termination and severance | 8.33 percent |
| Total mandatory benefits plus reserves | 50.75 percent |

Employees contribute a total of 9 percent of their wages to their benefits plan via payroll deductions.

A U.S. Social Security Administration survey¹⁰ elaborates on four different non-wage benefit programs in which employers in Costa Rica are required to participate for their employees: (1) a social insurance program, started in 1943, which covers sickness and maternity, for which the insured person pays 5.5 percent of earnings, the employer pays 9.25 percent of payroll, and the government pays 0.25 percent of total covered earnings; (2) a social insurance system, started in 1941, which provides old age, disability, and death insurance, for which the insured person pays 2.5 percent of earnings, the employer pays 4.75 percent of payroll, and the government pays 0.25 percent of total covered earnings; (3) a family allowance program, started in 1974, which provides assistance for those not meeting qualifications for other pensions, for which the employer pays 5 percent of payroll and the government pays a percent yield of the sales tax; and (4) a work injury program, started in 1925, which is a mixed compulsory and voluntary insurance program with a public carrier, for which the employers pay the whole cost and premiums vary according to risk.

ASSESSING BASIC NEEDS: THE POVERTY LINE

The U.S. Embassy reports that the poverty line in Costa Rica is approximately US\$100 per month for a family of five.

A compendium of poverty and income distribution statistics prepared by the International Labor Organization¹¹ reports several sets of measures of a national poverty line for Costa Rica:

- ! for 1981, 28.4 percent of the rural Costa Rican population was below the rural poverty line of a budget of C2,766 per capita per month in second half of the year 1988 prices and 18.2 percent of the urban Costa Rican population was below the urban poverty line of a monthly per capita budget of C4,002 in second half of the year 1988 prices, with a national poverty rate of 23.6 percent; for 1992, 28 percent of the rural population was below the rural poverty line and 27 percent of the urban population was below the urban poverty line, with a national poverty rate of 28 percent.¹²

¹⁰Social Security Administration, *Social Security Programs Throughout the World-1997* (Washington: U.S. Government Printing Office, August 1997), p. 88-89.

¹¹ Hamid Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data* (Geneva: International Labour Office, 1996), pp. 57-59.

¹² The estimates are referenced as originating from special tabulations prepared for the ILO in 1995 by the Economic Commission for Latin America and the Caribbean (ECLAC), which updated previous estimates in ECLAC, *Magnitud de la Pobreza en América Latina en los Años Ochenta* (Santiago: ECLAC, 1990), pp. 24; 115. The tabulations are based on household surveys and use a methodology that sets poverty lines based on the minimum per capita food-energy needs for age- and sex-specific minima as recommended by the FAO/WHO. The composition of the food basket takes into account the prevailing national dietary habits. The cost of the minimum food basket is evaluated using retail prices for the lowest quality varieties in the capital city or its metropolitan area (prices prevailing in other cities and in rural areas were generally unavailable). Minimum food budgets for other urban areas are set at 5 percent below the

- ! for 1981, 16.7 percent of the rural Costa Rican population and 9.9 percent of the urban Costa Rican population were below the national poverty line of monthly per capita income of US\$60 in 1985 purchasing power parity adjusted US\$, with a national poverty rate of 13.4 percent; for 1989, 3.2 percent of the rural population and 3.5 percent of the urban population were below the same poverty line, with a national poverty rate of 3.4 percent.¹³

The World Bank reports¹⁴ that, in 1989, 43.8 percent of the Costa Rican population was below the international poverty line of US\$2 per person per day and 18.9 percent of the population was below the international poverty line of US\$1 per person per day, both in 1985 purchasing power parity adjusted US\$.

MEETING WORKERS' NEEDS

There is little conclusive evidence on the extent to which wages and non-wage benefits in the footwear or apparel industries in Costa Rica meet workers' basic needs. Some information from U.S. Department of State or U.S. Embassy reports indicates more generally that, especially at the lower end of the wage scale, the minimum wage in Costa Rica is insufficient to provide a worker and a family a decent standard of living.¹⁵

The U.S. Embassy identified two publications that address issues related to wages in Costa Rica:

- ! Proyecto Estado de la Nación, "Estado de la Nación en Desarrollo Humano Sostenible," funded by the United Nations Development Programme (UNDP), available on the Internet at

capital's, and for rural areas at 25 percent below the capital's. Averages for urban areas and at the nation level are calculated using population weights. To reflect minimum expenditures on non-food needs, the urban poverty line is set at double the corresponding minimum food budget, and the rural poverty line at 75 percent above the cost of the rural minimum food basket. The poverty lines in national currencies were not provided in the ILO compendium. The ECLAC methodology is discussed more fully in J.C. Feres and A. León, "The Magnitude of Poverty in Latin America," *CEPAL Review*, No. 41 (August 1990), pp. 133-151. See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 137.

¹³ The estimates are referenced as originating from George Psacharopoulos, Samuel Morely, Ariel Fiszbein, Haeduck Lee, and Bill Wood, *Poverty and Income Distribution in Latin America: The Story of the 1980s*, Latin America and the Caribbean Technical Department, Regional Studies Program, Report No. 27 (Washington: World Bank, 1993), Tables 13.1 and 13.2 and pp. 62-69. The study is based on national-level household surveys compiled by the Economic Commission for Latin America and the Caribbean (ECLAC) and the World Bank. The poverty lines, in 1985 purchasing power parity adjusted US\$, were converted into national currencies, but were not provided in the ILO compendium. See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 138.

¹⁴ World Bank, *World Development Report 1998-99* (New York: Oxford University Press, 1999), p. 196.

¹⁵ U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 576.

<<http://www.estadonacion.or.cr>>; and

! Ministerio de Economía e Industria, “Encuesta de Hogares,” San Jose, no date.